INFORMATIONAL REPORT

TO: Mayor & City Council
FROM: Sara Imhulse, Assistant to the City Manager
THROUGH: Joseph L. Nagro, City Manager
DATE: November 28, 2006
SUBJECT: General Obligation Bond versus Revenue Bond Comparison Chart

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The following comparison considers differences between a general obligation (GO) bond and a revenue bond for the construction of a parking garage. Issuing a bond for other uses would merit a different analysis.

GENERAL OBLIGATION BOND	REVENUE BOND
• Lower risk to bondholder	• Higher risk to the bondholder due to lack of history for the revenue stream
• Lower interest rate due to lower risk	• Higher interest rate due to higher risk
• Likely lower bond issuance costs due to a simpler structure	• Potentially significantly higher bond issuance costs due to a complex structure (bond counsel fees alone can be 2.5 - 4.0 times higher or more for revenue bonds than general obligation bonds); requires consultant to prepare revenue projections
• Pledges ad valorem taxing power of the City to pay the debt service; City may use existing or increased revenue streams rather than a property tax increase to pay debt service	• Obligates or pledges specific revenue streams to pay the debt service, replenish any required reserve fund, and pay operating expenses; may also require lien on the financed facility
• Would require mandatory referendum if issue size causes aggregate amount of City GO bonds to exceed $13 million (1% of real property valuation); also counts against 5% and 10% Charter Section C7-4.C. and E. debt limits	• Would count against 5% and 10% Charter Section C7-4.C. and E. debt limits
• No debt service reserve required; no debt service coverage ratio covenant required. Debt service would be budgeted annually during the life of the bond	• Likely require debt service reserve fund (roughly 10% of issue principal amount) and covenant to levy fees and charges to so that net revenues in each year equal 110%-150% of annual debt service payments
• Backed by the full faith and credit of the City	• Backed by specific revenue stream
• Bond rating required for public underwriting; not required for negotiated competitive sale to a bank	• If sold by public underwriting, will require application for a bond rating (specific to the issue) and/or payment of an insurance premium to achieve an acceptable bond rating (and, therefore, lower interest rates)
• Uses funds drawn from the entire tax base (i.e., the City's operating budget); but City can choose in any year to apply other revenues to debt service payments in the first instance	• Primarily uses funds from garage only or revenue sources in the downtown area (depending on how the revenue bond is structured)